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ABSTRACT

New guidelines to provide more flexibility and certainty in meeting federal time distribution recordkeeping requirements for U.S. Department of Education programs are outlined in this document. Directed to state, local and Indian tribal governments, the new guidelines are expected to avoid audit appeals and disputes, freeing teachers and administrators to educate, and encouraging the creative use of resources from different federal, state, and local programs in the classroom setting. The new guidelines will maintain accountability and decrease the amount of time spent tabulating and litigating. The guidelines pertain to payroll documentation, time distribution records, standards for time distribution records, substitute systems for meeting requirements, written requests for guidance, professional standards, consequences of failure to meet requirements, and continuing review. The guidelines are effective on issuance. (LMI)

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GUIDELINES FOR SUPPORT OF SALARIES AND RELATED COSTS UNDER
PROGRAMS OF THE U.S. DEPARTMENT OF EDUCATION AND ENTITIES
GOVERNED BY OMB CIRCULAR A-87

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UNITED STATES DEPARTMENT OF EDUCATION
THE SECRETARY

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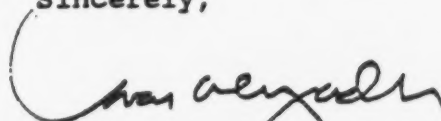
Dear Colleague:

The President's AMERICA 2000 initiative is a comprehensive strategy to help our country achieve its six National Education Goals. A cornerstone of that strategy is increasing teacher and administrator flexibility whenever possible. To that end, I'm announcing new guidelines for State, local, and Indian tribal governments that provide more flexibility and more certainty in meeting Federal time distribution record-keeping requirements for Department programs.

As you may know, disputes over the maintenance of records for employees who divide their time between two or more programs have been frequent and costly. There have been numerous audit appeals before Department hearing boards. Teachers belong in class, not in court. The new guidelines will help recipients better understand how to meet the requirements, thus avoiding disputes and increasing flexibility for your teachers and administrators. The guidelines will also encourage the creative use of resources from different Federal, State and local programs in the same classroom setting. The new guidelines are explained in the enclosed document. Please note that you have the option of developing a simplified, substitute system if it meets certain requirements.

I believe the new guidelines -- while maintaining accountability for proper use of funds -- will allow educators to spend less time tabulating and litigating and more time educating children. Flexibility and simplification in Federal regulations is a key to future reform, and I remain committed to that goal.

Sincerely,


Lamar Alexander

Enclosure

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**GUIDELINES FOR SUPPORT OF SALARIES AND RELATED COSTS UNDER
PROGRAMS OF THE U.S. DEPARTMENT OF EDUCATION FOR ENTITIES
GOVERNED BY OMB CIRCULAR A-87**

The U.S. Department of Education (ED) establishes these guidelines concerning the requirement in OMB Circular A-87, Attachment B, paragraph B.10b.,¹ that the salaries and wages of employees chargeable to more than one grant program, or other cost objective² be supported by appropriate time distribution records. These guidelines apply only to grants, cooperative agreements, and related subgrants made to or with entities governed by OMB Circular A-87³ under programs for which the Secretary of Education has administrative responsibility (ED grants). The Secretary accepts, for purposes of this time distribution records requirement, a system for the support of charges for salaries and related costs that is consistent with these guidelines.

(1) Payroll documentation. Charges to an ED grant for salaries and wages, whether treated as direct or indirect costs, must be based on payrolls documented in accordance with generally accepted practices of the recipient State or local agency making the charges and approved by a responsible official of that agency.

¹ The requirement is as follows:

Amounts charged to grant programs for personal services regardless of whether treated as direct or indirect costs, will be based on payrolls documented and approved in accordance with generally accepted practice of the State local, or Indian tribal government. Payrolls must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort.

² Cost objective, for the purpose of this document, means a pool, center, or other facility established for the accumulation of costs, including organizational units, functions, specific grants, projects, contracts or other activities.

³ OMB Circular A-87 applies to State, local or Indian tribal governments. See 34 C.F.R. § 80.22 (1991).

(2) Time distribution records. If an employee works on more than one program or cost objective, (such as two ED grants, two or more cost objectives under an ED grant,⁴ an ED grant and a grant under a program administered by another Federal agency, or an ED grant and one or more non-Federal programs), a distribution of the employee's salaries or wages is acceptable if supported by time distribution records that meet the standards in paragraph (3) of these guidelines or by a statistical sampling system or other substitute system that meets the requirements of paragraph (4) of the guidelines. Requirements regarding time distribution records systems are in addition to the standards for payroll documentation.

(3) Standards for time distribution records. Time distribution records are acceptable if they meet the following standards:

(a) They accurately reflect a distribution of the actual time spent on each activity by each employee. The Department does not accept budget estimates or other distributions determined before the services are performed as support for charges to an ED grant.

⁴ The following example represents a situation in which an employee of a grantee would be regarded as working on two or more "cost objectives" under a single ED grant. Under some programs, a grantee must satisfy the time distribution records requirement in order to assure compliance with program provisions that limit or cap the amount of grant funds that may be used, or establish a set-aside, for a certain activity. Where an employee of the grantee works on the activity that is the subject of the cap or set-aside, and on another activity, the time distribution records requirement must be satisfied. For example, in order to assure compliance with Section 1521(b) of Chapter 2 of Title I of the Elementary and Secondary Education Act of 1965, 20 U.S.C. 2931(b), which caps the amount of Chapter 2 funds that may be used for State administration and requires that a specified amount be used for effective schools, a State educational agency must maintain satisfactory records for SEA employees whose time is divided among one or more of these activities and technical assistance activities. These guidelines apply to this situation, as well as the more typical occasions for meeting the time distribution records requirement.

(b) They account for the total activity for which each employee is compensated.

(c) (i) They are prepared contemporaneously at least monthly and summarize the distribution of the employee's activity for the month in question.

(ii) The preparation of monthly time distribution records is acceptable if, in preparing the records, the employee relies upon available supporting documentation, such as calendars, class schedules, travel vouchers, or work product, and if entries are made to the best of the employee's knowledge and belief.

(d) They are signed by the employee or by a supervisory official who has first-hand knowledge of the activities performed by the employee.

(e) They may account for the time of clerical employees in the following manner:

(i) A clerical employee who provides clerical services for a single employee may base his or her time distribution records on the time distribution of that employee.

(ii) A clerical employee who provides clerical services for more than one employee may base his or her time distribution records on the time distribution of each employee served, adjusted through the use of a reasonable averaging method.

(f) Where an employee performs administrative, training, classroom teaching, technical assistance or other functions on a specific project that benefit more than one program or cost objective and the employee is unable to divide the time between each of the programs or cost objectives because of the nature of the project, costs may be charged to the programs or cost objectives on a basis other than the time spent, provided that charges are equitably distributed among funding sources. Examples:

(i) An employee spends a number of hours developing a manual for local educational agencies to use in improving

parental participation in programs supported by an ED grant and several other grants. Because one manual is produced, the employee is unable to divide the time spent on each grant. The grantee may prorate the costs to each grant in question on the basis of the proportion of funds allocated for each of the grants benefitting from the manual if this represents an equitable distribution.

(ii) A teacher teaches a class composed of 15 Chapter 1, and 5 special education, students with similar educational needs. The class is not structured in a way that permits allocation of time between groups; the class is taught as a whole. The teacher, at the end of the reporting period, may prorate time equitably based on the proportion of Chapter 1 and special education students, which in this example would be 75 percent to Chapter 1 and 25 percent to the Individuals with Disabilities Education Act. The allocation to each program would change each month if the class roster and proportion of Chapter 1 and special education students has changed.

The justification for the use of this method and the basis for the cost allocation must be developed at the time the method is adopted. The justification must be maintained in accordance with recordkeeping requirements.

(4) Substitute systems for meeting time distribution records requirement. (a) In place of time distribution records described in paragraph (3), a recipient may use a substitute system for allocating salaries and wages among programs or activities for a particular time period if the recipient, prior to charging Federal funds to particular cost objectives, obtains from an independent public accounting firm or another qualified auditor that meets the standards of independence in the General Accounting Office Government Auditing Standards a certification that the system--

(i) Is consistent with Generally Accepted Accounting Principles and with the standards in paragraph (4) (d); and

(ii) Provides distribution of costs to various programs and cost objectives that is equitable to the government and to the programs or cost objectives in question in accordance with OMB Circular A-87 and takes into account the benefit actually derived by each program or cost objective.

(b) (i) The certification called for in paragraph (4) (a) must describe the system employed and be available for inspection by the Secretary or his designee, together with the supporting documentation upon which the certification was based.

(ii) The applicable record retention requirement applies to the certification and the supporting documentation upon which the certification was based.

(c) Substitute systems may include random sampling, case counts, client counts, transaction counts, or other quantifiable measures of employee effort for a time period. Sampling and other measures should take into account relative effort or intensity of service as between different categories of clients served.

(d) A substitute system that uses sampling methods may be certified to satisfy the requirements of this paragraph if it meets acceptable statistical sampling standards, including the following:

(i) The universe from which a sample of employees is taken must include all of the employees whose salaries and wages are to be allocated by means of the sampling.

(ii) The entire time period for which salaries and wages are to be charged to a Federal grant involved must be covered.

(iii) The results must be statistically valid and applied only to the time period to which the sample may be validly extrapolated.

(iv) The results of the sampling system must be periodically updated to reflect changes in the measures used such as case counts or client counts.

(v) The recipient must use a valid and uniform system for converting the measure of employee effort (such as case counts, client counts) into time.

(e) A public accounting firm or qualified auditor that has provided a certification for a substitute system under this paragraph (4) may not also audit the certification or the system in question in connection with an organization-wide or single audit under OMB Circular A-128.

(5) Written requests for guidance. If a state or local educational agency has a question about its time distribution system or is not sure of the allowability of certain expenditures, it may write to the U.S. Department of Education for guidance pursuant to section 453 of the General Education Provisions Act, 20 U.S.C. 1234b(b). Written guidance provided by an authorized Department official and reasonably relied upon by a State or local educational agency may be used to reduce or eliminate liability for a future finding of unallowable expenditures. See Section 453 and 34 C.F.R. 81.23 for a complete statement.

(6) Monitoring. (a) A system of keeping time distribution records described in paragraph (3) or a substitute system approved in accordance with paragraph (4) is subject to monitoring and subsequent audit to ensure that the system has been properly implemented and is working as designed by the grantee as described in the certification.

(b) If the Department upon audit or otherwise reviews a system for which there is in effect a bona fide certification described in paragraph (4), the Department may provide further guidance or direction regarding the system and its use in meeting the time distribution records requirements. However, the Department will not question prior costs incurred in accordance the proper implementation of a substitute system that has received a bona fide certification.

(7) Professional standards. An independent public accounting firm or qualified auditor that provides a certification as described in paragraph (4) must use due professional care and operate within the standards of professional ethics. The Department will take appropriate steps to ensure adherence to these standards.

(8) Consequences of failure to meet the requirement. If a grantee fails to keep time distribution records in accordance with paragraph (3) of these guidelines or fails to establish and maintain a pre-approved substitute system in accordance with paragraph (4), or otherwise fails to satisfy the time distribution records requirement, the Department takes an audit exception and recovers funds proportionate to the harm to an identifiable Federal interest. See 20 U.S.C. 1234b(a). A grantee that fails to keep records or maintain a satisfactory system is subject to audit and potential recovery of funds.

(9) Effect; continuing review. These guidelines contain acceptable, but not exclusive, approaches concerning the time distribution records requirement. Officials of the Department, including the Inspector General, regard compliance with these guidelines to be compliance with the Circular A-87 time distribution records requirement. The guidelines do not prevent recipients from adopting other alternatives to meet the requirement. The Department will closely review the operation of this non-regulatory guidance document to ensure that it affords both accountability and flexibility with respect to the time distribution records requirement as it affects ED programs.

(10) Effective date. These guidelines are effective on issuance and are applicable to pending cases except where an advance certification is required.

Questions regarding these guidelines may be addressed to Theodore Sky, (202) 401-2603.